




REQUEST FOR CITY COUNCIL ACTION

MEETING DATE: JULY 14, 2020

TITLE: COMMUNITY CHOICE ENERGY THIRD PARTY PEER REVIEW



Director of Public Works and Transportation

DocuSigned by:

E85064D3C47543C...

City Manager

RECOMMENDED ACTIONS

Receive report and provide direction to staff.

EXECUTIVE SUMMARY

In March 2020, the City selected MRW & Associates (MRW) to conduct a peer review of the financial results and general findings of the Community Choice Energy (CCE) Feasibility Study and Technical Assessment (Feasibility Study) completed by EES Consulting on January 16, 2020. In June, MRW completed its assessment of the Feasibility Study's general findings and financial results, the risks to a CCE program from regulatory changes, and disruptive technologies that could potentially affect CCE operations. MRW also provided input on the governance options presented in the Feasibility Study, and a summary of lessons learned from other CCE programs currently operating in California.

In general, MRW found that the analytical approach of the Feasibility Study was sound and that many of the assumptions used were reasonable. However, MRW noted areas of concern with the financial variables in the Feasibility Study, particularly the values used for Resource Adequacy (RA) costs and the forecast for Southern California Edison (SCE) retail generation rates. MRW's analyses align these variables with current projections, resulting in a reduction to the projected revenues, and a reduction in the rate savings the CCE could potentially offer customers. Furthermore, while the values used in the Feasibility Study for the Power Cost Indifference Adjustment (PCIA or Exit Fees) were found to be acceptable, MRW emphasizes that the PCIA can vary significantly over time and is highly dependent on the wholesale power markets; presenting a financial risk to the CCE.

Although the peer review shows that the financial outlook is not as positive as expressed in the Feasibility Study, MRW found that the rate savings is consistent with what current CCE programs are offering, and that a CCE program in Irvine could be financially viable. Given the uncertainty of some variable inputs, MRW recommends that if the City pursues formation of a CCE, a more extensive and detailed pro forma analysis be required prior to implementation. MRW also states that given current conditions, Irvine and any partner agencies, will likely need to provide collateral funds to secure financing for the CCE.

Implementing a successful CCE program will require a notable amount of time and effort, of which MRW states should not be underestimated.

ANALYSIS

Currently, there are 21 CCE providers, serving more than 10 million customers in over 170 cities throughout California. CCEs serve nearly half the retail load in PG&E territory, and are rapidly increasing in both SCE's and SDG&E's territory.

As part of the effort to explore the possibility of implementing a CCE program in Irvine, the City commissioned a peer review of the initial CCE Feasibility Study. The City selected MRW to evaluate the following:

1. Feasibility Study's financial results and general findings
2. Risks pertaining to regulatory changes, electricity market, and rate increases
3. Emerging technologies that could potentially disrupt CCE operations
4. CCE governance options featured in the Feasibility Study
5. Lessons learned from operating California CCE programs

Overall, MRW found that the Feasibility Study included a thorough assessment of the financial and other risks that CCE providers face, and included mitigation options. MRW is concerned with two of the financial variables in the Feasibility Study, and made adjustments to reflect current estimates. MRW found that while the revenues and rate savings are lower than projected, an Irvine CCE is financially feasible as stated in the Feasibility Study. However, because the Feasibility Study did not adequately address RA and SCE retail generation rates, these areas will require further evaluation prior to CCE implementation.

Below is a summary of the key findings of the peer review completed by MRW. Information on MRW's analytical approach, specific numerical data and justification, and conclusions is included in the attached Third-Party Review: City of Irvine Community Choice Energy Feasibility Study Finding dated June 19, 2020 (Attachment 1). Also attached for reference is the initial Feasibility Study by EES Consulting dated January 16, 2020 (Attachment 2).

Financial Results and General Findings

In reviewing the Feasibility Study, MRW notes two financial variables of concern: cost to comply with Resource Adequacy (RA) requirements and the forecast of SCE retail generation rates. The State mandates that entities that serve electric load procure sufficient capacity to meet their peak load with a 15 percent reserve margin. The RA costs used in the Feasibility Study are about half of the current cost being incurred by CCEs for RA compliance. MRW found that compliance would reduce the expected net revenue of the CCE by 50 percent, from \$16 million (Feasibility Study) to \$8 million per year. Second, MRW found that the Feasibility Study overestimates SCE's retail generation rates. Adjusting the Feasibility Study's forecast of SCE retail generation rates to reflect current

rates reduces the potential rate savings from two percent to one-half percent. Considering this adjustment, MRW concludes that the CCE could still offer similar or nominally lower rates, compared to SCE. MRW estimated total electricity rate savings at \$1.9 million per year for CCE customers, and \$28,000 annually for City accounts.

MRW reviewed the PCIA calculation and states that this is the single largest uncertainty in a CCE analysis because it can vary significantly from year to year, and is highly dependent on several variables. The Feasibility Study does not provide detailed information on the PCIA values used, but MRW found the data to be consistent with its current forecast.

This section of the MRW report also provides information on the opt-out rates, power costs, and other procurement related and operating costs. MRW provides useful information on financing issues, and the current financial options from a recently formed CCE in San Diego.

Risk Assessment

The Feasibility Study *quantitatively* addresses many of the financial risks to a CCE, and provides a *qualitative* assessment on regulatory and other risks. Exhibit 39 in the Feasibility Study (Attachment 2) succinctly presents the risks to a CCE, and the likelihood and severity of each risk. The Feasibility Study notes that risks can be partially mitigated through several measures, including the creation of a rate stabilization fund, management of the power supply portfolio, and monitoring PCIA and rate issues. MRW was in general concurrence with the information as presented in Exhibit 39 of the Feasibility Study.

MRW found that the Feasibility Study did not address two important sensitivity variables: wholesale power costs and the cost to comply with RA requirements, as mentioned in the preceding section.

Risks that are qualitatively addressed include working with SCE, regulatory, grid reliability, the availability of renewable and greenhouse gas (GHG)-free resources, and competition with SCE's Green Options. These risks are difficult to assess, but will need to be monitored.

Disruptive Technologies

MRW considered three disruptive technologies that a new CCE should be aware of: transportation electrification and electric vehicles; customer-side generating technologies such as rooftop solar; and energy storage in the form of batteries. These potential disruptive technologies would require significant adoption in order to have any impact on CCEs. MRW notes that any potential risks associated with these technologies can be handled by incentivizing particular charging times or bidirectional charging (EVs), rate modifications (rooftop solar), or battery output regulation (battery storage).

Governance Options

MRW established that the Feasibility Study adequately addresses the four CCE governance options available to the City, and agrees that two options are most reasonable: forming an Irvine-only CCE, or developing a JPA with other Orange County cities.

Forming an Irvine-only CCE allows for the greatest control and flexibility, and creates less complicated governance. However, this City Enterprise model requires City resources to form and operate, and requires special care to protect the City's General Fund from CCE program obligations.

Under an Orange County JPA, each jurisdiction would be a voting board member. Depending on the voting structure established by the JPA, and the number of participating cities, Irvine would experience a reduced amount of local control. A JPA would provide protection to the City's General Fund, but will take a substantial effort to develop with other jurisdictions. MRW states that the two biggest hurdles to forming an Orange County CCE JPA are the required coordination with participating jurisdictions and time.

MRW also suggested an alternative option for Irvine; to form a City-only CCE with the intent of having other cities join through JPA formation in the future. There is also the possibility of moving forward with a JPA with at least one other interested jurisdiction at this time, and adding additional communities later to the same JPA. Solana Beach (Clean Energy Alliance) and Palm Springs (Desert Community Energy) have implemented a similar model. This option would require a shorter amount of time to implement a CCE.

Lesson Learned from Operating CCE Providers

To explore CCE "lessons learned," MRW drew upon its experience working for CCE providers and interviews with leaders at seven CCEs and key members of the California CCE community. Garnered from these sources were four common areas of advice for CCE planning and start-up: (1) keep foremost in mind why the City is forming a CCE program, (2) transparency and control is of the utmost importance, (3) biggest threat to CCE is regulatory risk, and (4) do not underestimate the effort and time needed to launch.

This section provides informative detail on the residential rate savings of other CCEs, how Irvine compares to the annual electric load of the other CCEs, and information on how CCEs are providing relief in response to COVID-19. A detailed appendix includes information on the various programs that other CCEs manage related to energy efficiency, low-income and multi-family incentives among others.

ALTERNATIVES CONSIDERED

N/A

